



BEEF CATTLE COLLATERAL INSPECTION REPORT

Client Information							
Relationship Name:	McClain Farms, Inc.						
Obligation Number:	22122952	Address:	824 Mullins Lane				
WW-ID:	604357	City State:	Benton, KY				
Sector:	Beef Cattle Ranching	Main Contact:	Brian McClain				
Fiscal Year End:	December	Email:	mcclainfarms@gmail.com				
Bank Information & Inspection Information							
Rabobank LQC:	Good	Report Date:	3/10/23				
R - Rating:	R16	Inspection Date(s):	2/28/23				
RAF Region/Territory:	Northeast	Cutoff Date:	1/31/23				
RAF Office:	Evansville, IL	Prior Inspection Date(s):	4/7/22 and 4/27/22				
MD/BDM-FAM:	Dan Villwock; Jeff Abbey	Lead Inspector:	Michelle Stockett				
RM1 & RM2:	Chip Lawson	Inspection Team:	Sean Johnstone				
FA:	Jason Dunn	Next Internal Review:					
RCO:	Carla Schindler	Next Maturity or Annual Review Date:	8/1/2023				
GM:	JP van Oosten	Frequency:	Annually				
Recommendations							
Recommendations Made	Rating	Quantity	Significant Risks/Concerns noted Large negative borrowing base after adjustments for cattle. Possible Fraud Case. Recommendation to Downgrade immediately and take control of cattle as soon as possible, due to concerns related to cattle being owned by other parties.				
Informational/Green	1	1					
Technical/Amber	2	0					
Material/Red	3	3					
Total:		4					
Sign off of AFCID Team Lead or Head of AFCID and Viewpoint							
Sign Off:	Date:	3/11/2023	Viewpoint/Opinion				
<i>Maria Contreras</i>			High information risk with adjusted negative BB base margin.				
Facility Information							
RLOC(s):	Facility No.	Maturity Date	RAF Commitment	Total Commitment	Principal Balance	Accrued Interest on Principal (excludes default interest)	Default Interest
Facility 1 RLOC	1	8/1/2023	\$ 54,000,000	\$ 54,000,000	\$ 54,573,418	\$ 929,173	
Borrowing Base Structure							
		Type	Frequency				
		Non-Restrictive Borrowing Base (Single Only)	Monthly				
<p><small>This Inspection Report is for the exclusive use and benefit of Rabo AgriFinance and affiliates. To the extent that this report may be delivered to any party other than Rabo AgriFinance, it has been delivered to such party pursuant to its request and may not be distributed by such party to any other person without Rabo AgriFinance's prior written consent. Each recipient of this report shall maintain the confidentiality of the contents of this report. Rabo AgriFinance shall have no responsibility or liability for any loss, damage, or claim arising from any use of this report. Each recipient of this report is solely responsible for satisfying itself as to the creditworthiness, assets, and affairs of the persons and entities referred to in this report.</small></p>							
<p>THIS REPORT IS NOT TO BE RELEASED TO ANY PERSON OR ENTITY OUTSIDE OF RABO AGRIFINANCE AND ITS AFFILIATES WITHOUT THE REQUIRED INTERNAL APPROVALS.</p>							
<p><small>The Recommendations within this report may contain proprietary information of the company inspected as well as judgments and opinions of the Agricultural Field& Collateral Insp. Dept. This information is for the sole use and benefit of Rabo AgriFinance & its affiliates. This report with recommendations is not for release to the borrower or to others outside Rabo AgriFinance & its affiliates.</small></p>							

McClain Farms, Inc.

EXECUTIVE SUMMARY

The Agricultural Field and Collateral Inspection Department (AFCID) was engaged to perform a standard inspection of the collateral to secure the existing loan to McClain Farms, Inc. ("McClain" the "Company" or the "Borrower"). The collateral inspection was completed by a team of inspectors on February 28, 2023, at the Company's headquarters located in Hereford, TX. The primary Company contact was owner Brian McClain. The Inspector spoke with RCO Schindler for account clarity before the inspection. Conversations were also held prior with Sr Chip Lawson as well as in person since Lawson attended the inspection in Texas. A closeout review was held with the Client before leaving the operation to discuss the observations made during the inspection. Regarding the discrepancy with the headcount, Client indicated he had cattle in KY and cattle were on the road to TX. He also mentioned that since feeder cattle prices have become so high recently, his overall numbers would be impacted and would be lower than January numbers on 2/28/23.

While onsite at the 3 locations in Texas, Inspection team including Sr. RM counted 8,916 cattle on hand at the individual yards. Below is the insert showing the discrepancy with numbers from January 31, 2023, to February 28, 2023, as client was not able to provide yardsheets that inspector was able to tieback to January counts:

	<u>2/28/23 counts</u>	<u>1/31/23 BBC</u>
McClain Fdyd - Hereford	2,480	31,668
7M - Friona	4,217	27,043
Tommy's - Friona	2,219	0
McClain Farms - KY (per Brian)	20,000	21,631
	<u>28,916</u>	<u>80,342</u>
Change in Head Count		51,426

Inspector has chosen to only include the cattle she saw and counted in TX (8,916) for the prepared BBC below. This is basically a worst-case scenario. She did request from the Client that she travel to KY on Monday, March 6, 2023, to count cattle there for the cohesiveness of the inspection, but he indicated this would not be possible because he would be in Florida. The other primary concern that Inspection Team has is that cattle at the yards could belong to someone else. Inspector's saw checks deposited into Clients February bank accounts with notations written as payment for "feedbills". This would lead us to believe that these people had cattle on feed with McClain Feedyard and owned the cattle.

The Company is required to prepare a monthly, non-restrictive Borrowing Base Certificates (BBC) for presentation to Rabo AgriFinance (Lender) within 30 days of month end.

The scope included a review of the 1/31/2022 Borrowing Base Certificate (BBC), the current herd and feed inventories, as well as an inspection of the physical operations. Also discussed with the company were the accounts receivables, accounts payable, cash accounts, feed inventory and outstanding check transactions. The Client works with Carr, Riggs and Ingram, LLC CPA in Albuquerque, NM to prepare year ending, reviewed financial statements.

	<u>Borrower</u> <u>Reported</u>	<u>Credit</u> <u>Agreement</u>	<u>Inspection</u>
Gross Eligible Collateral	\$ 113,537,704	\$ 18,854,136	\$ 18,854,136
Net/Margined Eligible Collateral	\$ 85,058,408	\$ 13,692,823	\$ 13,692,823
RLOC Outstanding	\$ 55,502,591	\$ 55,502,591	\$ 55,502,591
Gross Collateral Margin	\$ 58,035,113	\$ (36,648,455)	\$ (36,648,455)
Net/Margined Collateral Margin	\$ 29,555,817	\$ (41,809,768)	\$ (41,809,768)
Loan/Gross Eligible Collateral %	49%	294%	294%
Loan/Net Eligible Collateral %	65%	405%	405%

Borrower Reported: Indicates reporting as provided by the Company to the Lender.

Credit Agreement: Adjustments made to Company prepared reporting per requirements of the Credit Agreement. This column highlights the client's compliance with documented terms and conditions.

Inspection: Adjustments made to follow standard inspection scopes and industry practice, or where specific risks have been identified. Some adjustments may differ from credit approved terms and/or legally documented terms and are provided for informational purposes only.

Adjustments made during the inspection are as follows:

Borrowing Base Category	Bank Documentation	Inspection
	\$ Adjustments	\$ Adjustments
Cattle Count Adjustment	\$ (93,271,928)	\$ (93,271,928)
Outstanding Checks	\$ (1,161,639)	\$ (1,161,639)
Accounts Payable Adjustment	\$ (250,000)	\$ (250,000)
Totals	\$ (94,683,567)	\$ (94,683,567)

As mentioned earlier, the cattle adjustment is to take cattle from 80,342 to 8,916 as seen on 2/28/23. From yardsheet for January, which was provided by Client, AFCID was unable to verify head counts because nothing tied back to the submitted number. The Client had not included 2 large outstanding checks which resulted in the \$1,161,639 adjustment. In the prior inspection, Client and Inspector had agreed that accounts payable would be deducted in the amount of \$250,000 and Client failed to include this amount on the 1/31/23 BBC.

After interviews with management, the Company appears to no longer have the proper controls in place to properly prepare the BBC for presentation to Rabo AgriFinance. High information risk has been cited in every inspection since the prefunding and Client has always indicated they would improve. At this point, no improvement in processes nor procedures has occurred.

All cattle inventory claimed as owned by the Company and viewed on the date of inspection were valued in this report based on (1) mark-to-market cost to finish basis, (2) Cattle Fax Regional Price or (3) similar publicly reported regional price as appropriate for the operation. All feed inventory claimed were valued in this report based on the lesser of Borrower's cost or market.

Recommendations as of the result of the inspection findings are summarized below as:

- Level I/Green Recommendation
 - Next inspection will be scheduled to occur at the direction of Lender.
- Level III/Red Recommendation
 - Lender should work with Client to properly report outstanding checks
 - Lender should work with Client to properly report all accounts payable.
 - Recommend that Lender hire a forensic accountant to investigate what has happened to the cattle and what has happened to the money if cattle were sold which should have been used to paid down on the RLOC.

I hereby certify that I have personally examined the supporting documentation for the submitted borrowing base. I further certify that I am not related to the Borrower, have no interest in the loan(s) applied for or outstanding, and the foregoing summary and hereinafter is a true report of my findings.

Date Inspection Completed February 28, 2023

Michelle Stockett

Michelle Stockett

Sr. AFCID Collateral Inspector